

## The Perspective of a Leading Insurance M&amp;A Advisory Firm

## Recent Noteworthy Transactions

(\$s in millions)

## PROPERTY / CASUALTY DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op. Earn.
Philadelphia Cons. Hldg.	Tokio Marine Holdings	\$4,740	3.0x	16.0x
Darwin Professional	Allied World Assurance	\$550	2.0x	13.1x
CastlePoint Holdings	Tower Group, Inc.	\$490	1.2x	11.8x

## AGENT / BROKER DEALS

Target	Buyer	Value	Price to:	
			Revenue	
Hilb, Rogal & Hobbs	Willis Group Holdings Limited	\$2,144	2.7x	
Benfield Group Limited	Aon Corporation	\$1,750	2.8x	
UnionBanc Ins. Svcs.	Brown & Brown, Inc.	\$83	1.2x	
HBA Insurance Group	BB&T Corporation	\$50	2.7x	
Smith Peabody & Stiles	Brown & Brown, Inc.	\$13	2.7x	

## LIFE DEALS

Target	Buyer	Value	Price to GAAP:	
			Equity	Op Earn.
Nationwide Fin. Svcs.	Nationwide Mutual Ins.	\$7,332	1.5x	12.2x

## PLENTY OF ACTION, GOOD PRICES

We have been predicting that insurance M&A activity will ramp up soon. By any measure, it already has. Not only are there plenty of deals but the prices being paid have been quite strong for P&C carriers and brokers alike, especially when compared to the level that public companies are trading today.

Darwin Professional Underwriters, Inc., a spin-out of Alleghany Corp., went public in May 2006 at \$16 per share. In June, Darwin agreed to sell to Bermuda-based reinsurer Allied World for \$32 per share (approximately 2.0x GAAP book value). For Alleghany, which continued to own 55% of Darwin's stock following the spin-out, and other shareholders, the deal represented a healthy 100% return in 2 years. Darwin shares were selling for just \$21 per share back in March. The acquisition of Darwin, which is a professional liability specialist with direct written premium of over \$250 million, will double Allied World's U.S. business.

Meanwhile, from a valuation standpoint, Tokio Marine's announced buy-out of Philadelphia Consolidated was certainly noteworthy. Following on the heels of other aggressive foreign buyers like MAPRE SA who paid 1.6x book value for Commerce Group and Munich Re which paid 2.0x book value for Midlands, Tokio Marine agreed to pay 3.0x book value (\$61.50 per share) for PHLI in late July. The stock had traded below \$32.00 per share in mid-July. For a longer term perspective, in the Spring of 2000 the specialty insurer's shares traded for under \$5.00.

Two other announced deals involving specialty insurers include Hanover Insurance Group's purchase of AIX Holdings and CastlePoint Holdings' buy-out of Hermitage Insurance Group for \$135 million (1.3x book value). The purchase of AIX will be Hanover's third specialty insurance company acquisition in the last year. For CastlePoint, the Hermitage deal came less than four weeks after announcing it was selling to Tower Group for about \$490 million in Tower stock and cash (1.16x book) or \$12.68 per share at the time of the announcement (which represented a 42.8% premium to the prior day's stock price). CastlePoint went public at \$14.50 per share in March 2007. This deal is interesting considering that Tower sponsored the creation of CastlePoint in 2006, manages CastlePoint's operation and represents about 75% of the Company's reinsurance business.

On the brokerage side, big deals continue. And, where the private equity shops left off in the wake of the credit crunch, the strategic buyers picked up. In June, Willis Group announced its \$2.1 million (enterprise value) or \$46.00 per share buy-out of Hilb Rogal & Hobbs. HRH's stock had languished, having dropped from over \$50.00

## Insurance Carrier Stocks

## PROPERTY / CASUALTY CO.'s

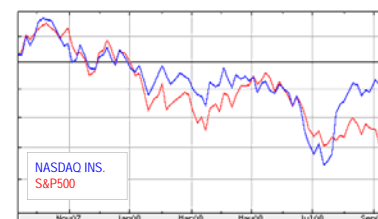
Median Price to Earnings (ttm): 9.2x  
Median Price to Book (mrq): 1.1x

## LIFE &amp; HEALTH COMPANIES

Median Price to Earnings (ttm): 13.5x  
Median Price to Book (mrq): 0.9x

## MULTI-LINE COMPANIES

Median Price to Earnings (ttm): 10.8x  
Median Price to Book (mrq): 0.9x



## INDEX PERFORMANCE

NASDAQ Ins. YTD 9/11/08: -5.6%  
S&P 500 Return YTD 9/11/08: -14.9%

## Insurance Broker Stocks

Price 9/11/08 to TTM 6/30/08

	Revenue	Earnings	EBITDA	EBITDA/Revenue %
Maximum	3.1x	19.3x	12.1x	37.0%
Minimum	0.6x	12.6x	4.6x	11.9%
Median	1.6x	17.2x	8.3x	17.9%

PLENTY OF ACTION, GOOD PRICES *cont'd.*

per share in April 2007 to under \$28.00 per share (intra-day) in April 2008. Willis, which will double its North American business with this deal and solidify its place as the third largest broker, is paying approximately 2.7x HRH's annual revenue. In August, AON, the world's largest broker, agreed to purchase UK-based reinsurance broker Benfield Group for \$1.75 billion. The Benfield deal represents the fifth \$1 billion plus insurance brokerage deal announced in the last 18 months. Prior to 2007 there had not been a billion dollar transaction in the brokerage space since KKR's leveraged buy-out of Willis in 1998.

Although their deals aren't as large, the consolidators like Brown & Brown and AJ Gallagher continue their acquisitive ways. Through August, B&B had announced 31 deals encompassing revenue in excess of \$93 million. Through June, AJG had closed 20 transactions with nearly \$58 million of revenue. Meanwhile, in the MGA / MGU / program administrator segment, traditional brokers find themselves competing with insurance carriers for acquisitions on a regular basis. This is certainly true when one of these sellers produces and controls a profitable book of specialty business. In these instances, carriers have a distinct pricing advantage over brokers because they plan to capture significant underwriting profits through the acquisition. In some respects the carriers view it as buying another insurance company minus the surplus.

We do not anticipate the M&A activity to abate much in the coming months as soft market conditions persist and a potential hike in capital gains tax rates weighs on potential sellers' minds.

## Deal Notes

## UnionBanCal Exits Insurance Brokerage

UnionBanCal's sale of UnionBanc Insurance Services to BB&T for \$83.4 million marks the Company's exit from insurance. The Company's experience in the insurance brokerage business is similar to the experience of many regional banks. UnionBanCal entered the business with an acquisition in 2001, and added three more acquisitions over the next two years, before ultimately deciding to refocus its efforts on other core fee-based businesses. In contrast, BB&T continues to grow its insurance brokerage business with a total of six acquisitions in 2008. This transaction typifies the decision that many regional banks find themselves facing: grow the insurance brokerage business or sell it.

# SOME OF OUR TRANSACTIONS...



Heath XS, LLC  
*has been acquired by*  
Hallmark Financial Services, Inc.

PhiloSmith acted as exclusive financial advisor to Heath XS, LLC.




The assets of  
Longhorn General Agency, Inc.  
&  
Longhorn Insurance Services, Inc.  
*has been acquired by*  
NALICO General Agency, Inc.  
a subsidiary of NLASCO

PhiloSmith acted as exclusive financial advisor to Longhorn General Agency



Republic Companies, Inc.  
*has acquired*  
Southern States General Agency, Inc.  
a subsidiary of  
Unitrin, Inc.

PhiloSmith acted as exclusive financial advisor to Republic Companies, Inc.



Four Corners Insurance  
Services, Inc.  
*has been acquired by*  
Republic Companies, Inc.

PhiloSmith acted as exclusive financial advisor to Four Corners Insurance Services, Inc.



Professionals Direct, Inc.  
*has been acquired by*  
The Hanover Insurance Group

PhiloSmith acted as exclusive financial advisor to Professionals Direct, Inc.



Texas General Agency, Inc.  
*and their affiliates*  
Gulf States Insurance Co.,  
TGA Special Risk, Inc.,  
& Pan American Acceptance Corporation  
*have agreed to be acquired by*  
Hallmark Financial Services, Inc.

Philo Smith acted as exclusive financial advisor to Texas General Agency, Inc.

**D.E. LOVE ASSOCIATES**  
D.E. Love Associates  
a subsidiary of  
Direct Response Corporation  
*has been acquired by*  
National Penn Bank

Philo Smith & Co. acted as exclusive financial advisor to Direct Response Corporation



GMAC Insurance Holdings, Inc.  
*and its subsidiary*  
Motors Insurance Corporation  
*have agreed to acquire*  
MEEMIC Insurance Company  
a subsidiary of  
ProAssurance Corporation

PhiloSmith acted as exclusive financial advisor to GMAC Insurance Holdings, Inc.



Beecher & Carlson  
Risk Management, Inc.  
a subsidiary of  
American Re Corporation  
*has been acquired by*  
Risk Strategy Partners, Inc.

Philo Smith & Co. acted as exclusive financial advisor to Munich-American Global Services, Inc.



Capital City Holdings Company, Inc.,  
Davis-Garvin Holdings, Inc.  
& affiliates  
*have agreed to be acquired by*  
North Pointe Holdings Corporation

PhiloSmith acted as exclusive financial advisor to Capital City Holdings Company, Inc.



Andrews & Murray  
Associates, Inc.  
*has been acquired by*  
Neighborhood Insurance  
Connecticut, LLC

Philo Smith & Co. acted as exclusive financial advisor to Andrews & Murray Associates, Inc.



Allianz of America, Inc.  
and  
Fireman's Fund Insurance Co.  
*have agreed to sell*  
Fireman's Fund Direct  
to  
Response Insurance Group

Philo Smith & Co. acted as financial advisor to Allianz of America and Fireman's Fund Insurance Co.



Unitrin, Inc.  
*has agreed to acquire*  
Merastar Insurance Company

PhiloSmith acted as exclusive financial advisor to Unitrin, Inc.



Future Planning Associates, Inc.  
*has been acquired by*  
U.S.I. Holdings Corporation

Philo Smith & Co. acted as exclusive financial advisor to Future Planning Associates, Inc.



Legion Insurance Company  
(in Liquidation)  
*has sold its subsidiary*  
Professional Risk  
Management Services, Inc.  
to  
Transatlantic Holdings, Inc.

PhiloSmith acted as exclusive financial advisor to Legion Insurance Company (in Liquidation)



HI Holdings, Inc.  
*and its subsidiary*  
Zephyr Insurance Company  
*agree to be acquired by*  
Kingsway Financial Services, Inc.

Philo Smith & Co. acted as exclusive financial advisor to HI Holdings, Inc.



Response Insurance Group  
*has acquired*  
Worldwide Insurance Company  
and  
Worldwide Direct Auto  
Insurance Company  
subsidiaries of  
Great American Insurance Company

Philo Smith & Co. acted as exclusive financial advisor to Response Insurance Group



State Auto Mutual Insurance Co.  
*has agreed to affiliate with*  
Patrons Mutual Group  
of Connecticut

PhiloSmith acted as exclusive financial advisor to State Auto Mutual Insurance Co.



Harleysville Mutual  
Insurance Company  
*has agreed to merge with*  
Penn Mutual Insurance Company

Philo Smith & Co. acted as exclusive financial advisor to Harleysville Mutual Insurance Company



Virginia Mutual Insurance Company  
*has agreed to affiliate with*  
Alfa Mutual Insurance Company

Philo Smith & Co. acted as exclusive advisor to Virginia Mutual Insurance Company

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